

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1349-01  
Bill No.: HB 708  
Subject: Medicaid; Revenue Dept.; Taxation and Revenue - General; Taxation and Revenue - Income  
Type: Original  
Date: March 4, 2009

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Bill Summary: Would exempt MO HealthNet expense reimbursements received by doctors, dentists, and nurses from state income tax.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	(\$9,365,320)	(\$9,395,766)	(\$9,398,639)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$9,365,320)</b>	<b>(\$9,395,766)</b>	<b>(\$9,398,639)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 6 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	2	2	2
<b>Total Estimated Net Effect on FTE</b>	<b>2</b>	<b>2</b>	<b>2</b>

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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## **FISCAL ANALYSIS**

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### **ASSUMPTION**

Officials from the **Office of the Secretary of State**, the **Office of Administration**, **Administrative Hearing Commission**, the **Department of Health and Senior Services**, and the **Department of Social Services** assume this proposal would have no fiscal impact to their organizations.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume there would be no added cost to their organization as a result of this proposal. BAP officials stated that this proposal would exempt MO HealthNet expense reimbursements received by doctors, dentists, and nurses from state income tax. In FY08, the total payments under the MO HealthNet program was \$206.7 million. Therefore this proposal may reduce Missouri Taxable Income by this amount. Assuming a 4.5% effective tax rate, this proposal could reduce general and total state revenues by \$9.3 million annually.

Oversight will use the BAP estimate of revenue reduction. Oversight assumes the proposal would become effective in August 2009 and would be effective for 2009 tax returns filed in January, 2010 (FY 2010). A full year's impact would be expected for FY 2010.

Officials from the **Department of Revenue** (DOR) assume this proposal would create a new income tax deduction. Deductions reduce the amount of tax due; therefore, this legislation would reduce total state revenues.

The proposal defines "Reimbursed MO HealthNet Expenses" as those received under provisions of the MO HealthNet Program for services rendered by a taxpayer who provides health care. Those reimbursed MO HealthNet expenses could be subtracted from Federal Adjusted Gross income to calculate Missouri Adjusted Gross Income. Modifications to tax forms and instructions would be required, and modifications to the MINITS system would be required.

DOR officials assume Personal Tax would require two Temporary Tax Employees for key entry, one FTE Revenue Processing Technician I per 19,000 returns verified, and one FTE Revenue Processing Technician I per 2,400 pieces of correspondence.

DOR submitted an estimate of the cost to implement the proposal, including two additional employee and the related equipment and expenditures totaling \$90,618 for FY 2010, \$98,721 for FY 2011 and \$101,683 for FY 2012.

ASSUMPTION (continued)

**Oversight** has, for fiscal note purposes only, changed the starting salary for the additional position to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has adjusted the DOR estimate of equipment and expenditures in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

**Oversight** will assume that DOR would need additional employees for six months in FY 2010 to process 2009 tax returns filed beginning January 2010.

DOR officials provided an estimate of the IT cost to implement the proposal.

Officials from the **Office of Administration, Information Technology Services Division** (ITSD/DOR) estimated that this proposal could be implemented using one FTE existing CIT III for three months for modifications to the MINITS system at a total cost of \$13,323. ITSD/DOR officials assume the IT portion of this request could be implemented with existing resources; however, if priorities shift, additional FTE or overtime would be needed.

**Oversight** assumes ITSD/DOR could implement the proposal with existing resources.

<u>FISCAL IMPACT - State Government</u>	FY 2010 (6 Mo.)	FY 2011	FY 2012
<b>GENERAL REVENUE FUND</b>			
<u>Cost - DOR</u>			
Payroll (2 FTE)	(\$36,070)	(\$63,271)	(\$65,169)
Fringe benefits	(\$17,541)	(\$30,769)	(\$31,692)
Expense and equipment	<u>(\$11,709)</u>	<u>(\$1,726)</u>	<u>(\$1,778)</u>
Total	<u>(\$65,320)</u>	<u>(\$95,766)</u>	<u>(\$98,639)</u>
Revenue reduction - income tax exemption	<u>(\$9,300,000)</u>	<u>(\$9,300,000)</u>	<u>(\$9,300,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$9,365,320)</u></b>	<b><u>(\$9,395,766)</u></b>	<b><u>(\$9,398,639)</u></b>
Estimated Net FTE Effect on General Revenue Fund	2	2	2
 <u>FISCAL IMPACT - Local Government</u>	 FY 2010 (10 Mo.)	 FY 2011	 FY 2012
	<u><b>\$0</b></u>	<u><b>\$0</b></u>	<u><b>\$0</b></u>

FISCAL IMPACT - Small Business

This proposal would have a direct impact to small businesses which provide services reimbursed by the MO HealthNet program.

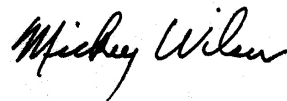
FISCAL DESCRIPTION

This proposal would exempt MO HealthNet expense reimbursements received by doctors, dentists, and nurses from state income tax.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State  
Office of Administration  
    Administrative Hearing Commission  
    Division of Budget and Planning  
Department of Health and Senior Services  
Department of Revenue  
Department of Social Services

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA  
Director  
March 4, 2009